

*Paulding County
Board of Education*

**Performance Audit on
Special Purpose Local Option Sales Tax**

For The Year Ended June 30, 2018



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Introduction

To the Members of the Board of Education
Paulding County School District
Dallas, Georgia

Georgia Code Section 20-2-491 requires public school systems to obtain continuing performance audits for expenditure of sales tax for capital outlays if the tax generates \$5 million or more annually. The independent performance audit shall:

1. Include a goal of ensuring, to the maximum extent possible, that the tax funds are expended efficiently and economically so as to ensure that the school district receives maximum benefit from the dollars collected.
2. Provide for issuance of periodic reports, not less than once annually, with respect to the extent to which tax funds are expended efficiently and economically as described in item 1 above; and
3. Provide for issuance of periodic public recommendations, not less than annually for improvements in meeting the goal specified in item 1 above.

SPLOST, or “Special Purpose Local Option Sales Tax,” is a referendum voted and approved by Paulding County voters in which one percent is added to the local sales tax for the purpose of funding School District building and renovation projects that would otherwise require financing through increasing residents’ property taxes.

The School District works under the direction of the School Board and its superintendent, and the projects selected for SPLOST funding are chosen by the School Board. The SPLOST IV resolution is to be distributed to Paulding County School District for the continuation of a one percent sales tax, for a maximum period of time of 20 calendar quarters. Paulding County School District is provided the funds to pay for (a) paying a portion of the principal and interest on the School District’s outstanding General Obligation Bonds, Series 1995, Series 2003, Series 2007, and Series 2008 coming due February 1, 2012 through and including August 1, 2016, in the maximum amount of \$54,537,249, and (b)(i) financing capital outlays for the maintenance, renovation, completion, construction and expansion of new and existing school facilities, and (ii) acquiring any property necessary or desirable therefore, both real and personal, the maximum cost of such projects not to exceed \$35,462,751. The maximum estimated cost of the outstanding general obligation debt to be retired and the projects to be funded from the proceeds of such sales and use tax is \$90,000,000.

The SPLOST V resolution is to be distributed to Paulding County School District for the continuation of a one percent sales tax, for a maximum period of time of 20 calendar quarters for the raising of not more than \$100,000,000. Paulding County School District is provided the funds to be used to (a) pay the principal and interest on the Series 2007 Bonds and the Series 2008 Bonds (during the period the Educational Sales Tax is to be imposed) in the maximum amount of \$43,396,575 and (b) finance the following capital outlay projects in a maximum amount of \$56,603,425: acquisition, construction, and equipping of facilities and equipment throughout the School District, including renovations, additions, and improvements to Shelton Elementary School and North Paulding High School, track and field improvements, HVAC upgrades, roof and gutter replacement, flooring improvements, safety and

security upgrades, public address and intercom replacement, plumbing improvements, new technology, and band equipment. The approval of the voter referendum also constituted approval of the issuance of general obligation debt of the School District in a principal amount not to exceed \$20,000,000 for all or a portion of the capital outlay projects described above. Such general obligation debt shall be payable first from the proceeds of the Educational Sales Tax; however, such general obligation debt which is not satisfied from the proceeds of the Educational Sales Tax shall be satisfied from the general funds of the School District or from a direct annual ad valorem tax to be levied for such purpose. The maximum amount of principal and interest due on the Series 2007 Bonds and the Series 2008 Bonds (during the period the Educational Sales Tax is to be imposed) to be paid with the proceeds of the Educational sales Tax, including interest, and cost of issuance on the general obligation debt to be incurred, shall be \$56,603,425, which amount of debt to be retired and costs of capital outlay projects shall be the maximum amount of net proceeds to be raised by the Education Sales Tax.

Audit Scope, Objectives, and Methodology

Audit Scope

Mauldin & Jenkins was engaged to conduct a performance audit of the SPLOST program. The audit focused on the School District's compliance with state and local laws and mandates and the receipt and expenditure of sales tax proceeds for allowable SPLOST educational purposes.

The audit covers the year of the SPLOST program from July 1, 2017 to June 30, 2018. From a listing of disbursements made during the specified time frame, we tested all debt service expenditures (which totaled \$8,192,800) and a sample of non-debt service SPLOST expenditures totaling \$2,267,232 or 30% of the non-debt service expenditures.

Audit Objectives

The overall objective of the performance audit was to evaluate whether the tax funds are expended efficiently and economically so that the School District is receiving maximum benefit from the dollars collected. The specific audit objectives were:

- To determine whether the schedule of projects adheres to the approved resolution adopted by the Paulding County School District,
- To determine that the reporting effectiveness between the School District and the Board of Education communicates the status of capital outlay projects to ensure that legislative, regulatory, and organizational goals and objectives were achieved,
- To determine the reliability of the monitoring function to verify that actual project expenditures are not exceeding budgeted amounts,
- To determine whether there is an effective means of monitoring program performance within a projected timeline, to evaluate the validity of expenditures, and to evaluate the timely completion of each capital project,
- To determine the reliability, validity or relevance of financial analyses to verify that cash flows conform to forecasted projections by project and priority, and that intended economic results are accomplished,
- To determine whether effective procedures exist to verify that design and construction of capital projects adhered to applicable quality control standards,

- To determine the effectiveness of financial controls in place to ensure that the receipt and expenditure of tax revenue funds are in compliance with applicable laws and regulations, and
- To determine whether management of the School District is following Board approved procurement policies and procedures.

Audit Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To ensure that the SPLOST performance audit is adequately planned, performed and supervised, we performed the following steps:

Planning

Prior to the conduct of the audit, we determined mutual expectations in performing the engagement and meeting time lines. We discussed policies and procedures, methodologies, and other relevant aspects of the School District's SPLOST program with relevant staff. We requested various schedules from the School District's staff and discussed with them the date the fieldwork was expected to begin.

Preliminary Analytical Review

The preliminary analytical review provided direction to our audit approach. In this analysis, we developed expectations related to projects, program documentation, key personnel, program organization, and account balances and relationships among those account balances. During the audit, tests were designed to confirm the expectations developed during our preliminary analytical review. We also performed a preliminary analytical review to analyze the laws governing SPLOST funds and to identify in advance the critical audit risk areas.

Risk Assessment

Our audit approach is risk-based, whereby we assess risks for each identified objective. These assessments include an assessment of inherent and control risks to determine a combined risk assessment. Depending on the combined risk assessment, we performed substantive or analytical procedures, or a combination of both, to test the related objectives. These assessments were made during the planning process and throughout the engagement.

Understanding the Control Environment and Testing Key Controls

We examined the School District's internal controls related to the SPLOST program, focusing on formulating comments and suggestions for improving operations. We used a discussion memorandum format to document the relevant accounting cycles and processes from start to finish. Utilizing our understanding of the control environment, we walked through certain internal controls to provide further support for the audit.

Preparation of a Tailored Audit Program

Based upon preliminary analytical review, control documentation and walk through procedures, audit programs were designed in order for conclusions to be reached for each audit objective.

Reporting

At the conclusion of the performance audit, we prepared a preliminary report of findings and a written analysis of proposed recommendations in draft form. This preliminary report and analysis was presented to the School District's representative(s). Upon completion of the presentation and review of the report and analysis by the School District's representative(s), we provided a public report of the results of the annual performance audit.

Audit Results

Based on the results of our audit, we conclude that the Paulding County School District's SPLOST Program is operating in compliance with all applicable laws and regulations, the referendum approved by the County's citizens, and industry best practices. The following are the specific results of our audit:

Objective #1: To determine whether the schedule of projects adheres to the approved resolution adopted by the Paulding County School District.

Procedures: We obtained a copy of the SPLOST IV and V Resolutions as approved by the Board of Education and the voters of Paulding County. Using a listing of disbursements for the period July 1, 2017 to June 30, 2018, we tested a sample of sixty (60) expenditures in order to ensure that spending of SPLOST funding was compliant with the approved activity in the resolution. For each disbursement we vouched the expenditure to supporting documentation, such as vendor invoices.

Results: Based on the results of our disbursement test, the expenditures tested were related to activities approved in the SPLOST resolutions.

Objective #2: To determine that the reporting effectiveness between the School District and the Board of Education communicates the status of capital outlay projects to ensure that legislative, regulatory and organizational goals and objectives were achieved.

Procedures: We discussed the policies and procedures for communication with the Construction Manager and the Chief Financial Officer (CFO). Per discussion with the Construction Manager, he prepares a quarterly board summary report that shows construction jobs that are in the planning stage and under construction. For those under construction, he includes the status of the construction, change orders, any issues encountered, the adjusted price and compares the total draws to the contract total. The CFO, along with the help of the Business Services Coordinator, prepares the monthly financial reports, including a summary of SPLOST accounts' financial activity. We obtained and reviewed all twelve (12) monthly financial reports submitted to the Board. Based on our testing, the

process for communicating the construction and/or programmatic status of the SPLOST projects with the Board is documented and is presented on formally at the School District's monthly Board meetings on a quarterly basis. For those projects under construction, the Construction Manager includes the status of the construction, change orders, issues encountered, the adjusted price and compares the total draws to the contract total.

Results: Based on the results of the inquiries made and review of reports submitted to the Board, the School District has an effective method in place to communicate with the Board in regard to the financial and construction status of each project to ensure that legislative, regulatory, and organizational goals and objectives are achieved.

Objective #3: To determine the reliability of the monitoring function to verify that actual project expenditures are not exceeding budgeted amounts.

Procedures: We discussed the monitoring of expenditures versus budget with the Business Services Coordinator. The CFO maintains and reviews the Board Summary Report showing the monthly revenue and expenditure activity prior to submitting the reports to the Board. The CFO, Business Services Coordinator, and Construction Manager all maintain a ledger which records the payments to the accounts which is posted and balanced by the Finance Department and a spreadsheet that totals budget to actual from year to year. This includes a review of individual transactions to the budget. We reviewed disbursements as described in Objective #1 for the CFO's approval and the Board Summary Report.

Results: Based on the results of inquiries made and review of reports, adequate processes are in place to monitor expenditures to ensure that actual project expenditures do not exceed budgeted amounts.

Objective #4: To determine whether there is an effective means of monitoring program performance within a projected timeline, to evaluate the validity of expenditures, and to evaluate the timely completion of each capital project.

Procedures: We discussed the monitoring of projects with the Construction Manager. Per discussion, the School System's Construction Manager is responsible for the District's supervision of all construction projects. The Construction Manager works closely with the District's contracted architect to guarantee projects are completed to the correct specifications and timelines. This is achieved by frequent site visits and keeping an open line of communication. Any concerns that arise regarding a project's adherence to specific guidelines or progress are addressed with the architect and contractor(s), who then work to find the best resolution. The architect also reviews all contractor applications for payment to certify that the work being billed is the same work that was performed at the contracted price. Together, the CFO, Business Services Coordinator, and Construction Manager maintain a SPLOST cash flow outside of the accounting software. The cash flow allows for the comparison of budgeted project costs to actual construction expenses over the life of the project, as well as the month by month forecast of future expenses. SPLOST collections and GSFIC capital outlay deposits are also forecasted monthly to ensure that funds will be available to pay debts on all

current and future projects, and debt service. Interdepartmental meetings are conducted monthly attended by the Superintendent, CFO, and Construction Manager, where the cash flow is reviewed in addition to project updates and budget adherence. Additionally, we conducted a disbursement test, as described in Objective #1, to ensure that the Board has policies and procedures in place to ensure that expenditures are properly approved by an individual who reviews the work to ensure that invoices submitted are valid in regard to work completed and appropriate for the SPLOST Program.

Results: Based on the results of inquiries made, review of reports prepared for submission to the Board (including budget to actual financial status reports and project status reports), and review of reports completed upon inspection of project sites, the Board has an effective program in place to monitor program performance and to ensure the timely completion of each capital project within the projected timeline. Additionally, the Board has policies and procedures in place to ensure that expenditures incurred and paid are valid expenditures of the SPLOST projects.

Objective #5: To determine the reliability, validity or relevance of financial analyses to verify that cash flows conform to forecasted projections by project and priority, and that intended economic results are accomplished.

Procedures: In order to determine the reliability, validity, and relevance of financial analyses prepared by various staff involved in the SPLOST projects, we inquired as to the procedures performed in regard to the financial analyses. Per discussion with the Business Services Coordinator, the CFO, Construction Manager, and Business Services Coordinator all review the Year to Date Project Report for each project which details the original budget, revised budget, the year to date expenditures, and the available budget. Also, each of them all maintain a copy of contractor invoices and a spreadsheet which details, the payment number, invoice date and amount, expenditures to date, change orders (if any) and the balance to finish. In addition, per discussion with the Business Services Coordinator, he maintains a log of the SPLOST receipts. We obtained and reviewed the contractor payment log and the SPLOST receipts log.

Results: Based on the results of inquiries made, review of contractor payment log, review of SPLOST receipts log, review of reports submitted to the Board, there is an adequate process in place to monitor cash flows to ensure that financial analyses to verify that cash flows conform to forecasted projections by project and priority are reliable, valid, and relevant and that the intended economic results are accomplished.

Objective #6: To determine whether effective procedures exist to verify that design and construction of capital projects adhered to applicable quality control standards.

Procedures: We discussed procedures in place to monitor the design and construction of capital projects with the Construction Manager. Per discussion with the Construction Manager, he maintains a project manual, which outlines the standards and quality of materials that should be used on the projects. We obtained and reviewed the bid documents and construction updates for the East Paulding Middle School Renovations project in progress during the audit period. We reviewed the project manual identifying the quality control specifications noting the contractor met those requirements in

the bid documents. Additionally, we conducted a disbursement test, as described in Objective #1, to ensure that the Board had policies and procedures in place to ensure that expenditures are properly approved by an individual who reviews the work on site to ensure that invoices submitted are valid in regard to work completed.

Results: Based on the results of inquiries made and review of reports compiled by the School District Construction Department staff documenting its assessment of work performed, effective procedures are in place to verify that the design and construction of capital projects adhere to applicable quality control standards.

Objective #7: To determine the effectiveness of financial controls in place to ensure that the receipt and disbursement of tax revenue funds are in compliance with applicable laws and regulations.

Procedures: We discussed financial controls in place with the CFO and the Business Services Coordinator. The School System has an approval process in place whereby all expenditures are verified (goods have been received and/or work has been completed) before an invoice is approved for payment. We obtained and reviewed the twelve (12) monthly financial reports submitted to the Board during the audit period. Included within the reporting package was a period-to-date and year-to-date summary of information, including receipts and disbursements by project. Furthermore, the School District provided a SPLOST V Collections report to the Board which showed the collections life-to-date for the SPLOST, broken down by month for each fiscal year. Additionally, as described in Objective #1, we performed a disbursement test over expenditures.

Results: Based on the results of inquiries made, review of monthly financial reports submitted to the Board, and review of disbursements, effective financial controls are in place to ensure that the receipt and expenditure of tax revenue funds are in compliance with applicable laws and regulations.

Objective #8: To determine whether the School District is following Board approved procurement policies and procedures.

Procedures: In order to test the procurement practices of the Program, we obtained a copy of Board policy in regard to bids and procurements and held discussions with senior management. We then reviewed the project expenditures for the current year, noting there were three (3) new procurement contracts over \$25,000 placed out for bid during fiscal year 2018. We tested the procurement procedures for those three new contracts over \$25,000.

Results: Based on results of testing, the School District is following procurement policies and procedures.

Closing

This report is intended solely for the information and use of the Paulding County Board of Education and its management and other officials, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 22, 2019